

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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AGRE-00 /090 W

-----059870 220445Z /14

R 211531Z SEP 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 9661

C O N F I D E N T I A L CAIRO 15668

E. O. 11652: GDS
TAGS: EFIN, EGEN, EG
SUBJ: FRAMEWORK FOR 1978 FOREIGN EXCHANGE BUDGET PREPARED

1. SUMMARY: OUTLINE OF GOE 1978 FOREIGN EXCHANGE BUDGET HAS BEEN PREPARED, REVIEWED BY CABINET ECONOMIC GROUP, AND RELEASED TO PRESS THIS WEEK. SKELETON FRAMEWORK ESTIMATES REFLECT FOREIGN EXCHANGE DEFICIT ON CURRENT ACCOUNT AND SIZABLE (ON BASIS THESE PROJECTIONS, LE 2 BILLION) FOREIGN EXCHANGE GAP FOR UPCOMING YEAR. WHILE POST BELIEVES CERTAIN FIGURES MAY BE INFLATED FOR GOE'S OWN PURPOSES, REPORT ILLUSTRATES NECESSARY CONTINUED RELIANCE ON SUBSTANTIAL INFLOWS OF EXTERNAL ASSISTANCE. END SUMMARY.

2. AL AHAM REPORTED SEPT 20 THAT GOE MINISTERIAL ECONOMIC GROUP APPROVED TENTATIVE FRAMEWORK OF 1978 FOREIGN EXCHANGE BUDGET PRIOR TO DEPPRIMIN KAISOUNI'S DEPARTURE FOR IMF/IBRD MEETINGS. ACCORDING TO PRESS SOURCES, BUDGETARY REPORT, WHICH WAS PREPARED BY MINECON HAMED EL SAYEH, ESTIMATES AVAILABLE RESOURCES FOR 1978 AT LE 1,770 MILLION -- LE 1,417 MILLION EQUIVALENT IN CONVERTIBLE CURRENCY AND LE 353 MILLION IN EARNINGS UNDER PAYMENTS AGREEMENTS. VALUE OF COMMODITY IMPORTS IS FORECAST AT LE 2,327 MILLION LEVEL, OF WHICH LE 493 MILLION IS PLANNED FOR FOOD ITEMS.

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3. IMPORT EXPENDITURES ARE ESTIMATED AS FOLLOWS: LE 493 MILLION BILL FOR FOOD ITEMS INCLUDES LE 453 MILLION EQUIVALENT FROM CONVERTIBLE CURRENCY COUNTRIES AND LE 40 MILLION FROM PAYMENTS AGREEMENT COUNTRIES; LE 660 MILLION FOR INTERMEDIATE COMMODITIES (INCLUDING WHEAT AND MAIZE), WITH LE 400 M FROM CONVERTIBLE CURRENCY COUNTRIES AND

260 M IMPORTED UNDER COMMODITY AGREEMENTS; LE 648 MILLION IN CAPITAL GOODS COSTS; AND ADDITIONAL LE 526 MILLION FOR CONSUMER, FOOD, INTERMEDIATE AND CAPITAL GOODS THROUGH THE COLLATERAL (PARALLEL) MARKET. (NOTE: PARALLEL RATE IS LE 1 EQUALS \$1.43; OFFICIAL RATE IS LE 1 EQUALS \$2.56.)

4. PROJECTED EXPORT (PRESUMABLY COMMODITY) REVENUES TOTAL LE 1,045 MILLION, OF WHICH 700 MILLION IN CONVERTIBLE CURRENCY AND LE 345 MILLION IN EXPORTS TO PAYMENTS AGREEMENT (NOTABLY EASTERN BLOC). ANOTHER LE 180 MILLION IN AGRICULTURAL COMMODITIES WILL BE EXPORTED THROUGH PARALLEL MARKET. LE 290 MILLION IN EARNINGS FROM AGRICULTURE WILL BE GENERATED THROUGH OFFICIAL MARKET TRADE. PROJECTED INDUSTRIAL EXPORTS TOTAL LE 574 MILLION, OF WHICH LE 185 MILLION WOULD BE ACCOUNTED FOR UNDER EXISTING PAYMENTS AGREEMENTS AND REMAINDER FROM CONVERTIBLE CURRENCY COUNTRIES.

5. INVISIBLE EXPORTS (E.G., SUEZ CANAL, TOURISM, ETC.) NOT INCLUDED IN ABOVE LE 1,045 TOTAL, ARE ESTIMATED AT LE 726 MILLION, WITH ONLY LE 9 MILLION ACCOUNTED FOR UNDER COMMODITY ARRANGEMENTS. A SUMMARY ACCOUNTING OF ESTIMATED TRADE DEFICIT EQUALS LE 557 MILLION, BUT CORRELATION OF CONVERTIBLE CURRENCY EXPORT/IMPORT FIGURES IN ACTUALITY INDICATES ESTIMATED HARD CURRENCY DEFICIT OF LE 610 MILLION IN FOREIGN EXCHANGE TRADE ACCOUNT, GIVEN ABOVE PROJECTIONS AND ASSUMING FOREIGN EXCHANGE WILL BE REQUIRED TO PAY FOR

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CAPITAL GOODS, SUPPLY AND PARALLEL MARKET COMMODITIES.

6. ARTICLE ALSO CITES REPORT AS ESTIMATING FOREIGN DEBT COMMITMENTS COMING DUE DURING 1978 AT LE 1,898 MILLION, OF WHICH LE 1,411 MILLION IN CONVERTIBLE CURRENCIES AND LE 487 MILLION UNDER PRESENT PAYMENTS AGREEMENT ARRANGEMENTS. ADDITIONALLY, ESTIMATED TOTAL INVISIBLE OUTFLOWS FOR 1978 ARE LE 247 MILLION, OF WHICH 231 MILLION REPRESENTS CONVERTIBLE CURRENCY PAYMENTS.

7. WE DO NOT HAVE ENTIRELY COMPARABLE DATA FOR 1977, BUT WE DO HAVE FOR COMPARISON 75 AND 76 FOREIGN EXCHANGE BUDGET ESTIMATES IN CONVERTIBLE CURRENCY. SEE SHORT SUMMARY BELOW (FIGURES IN LE MILLIONS).

| | 1975 | 1976 | 1978 |
|----------------------------|------|--------|---------------|
| COMMODITY EXPORTS | | 243 | 352 700 |
| COMMODITY IMPORTS | | -1,772 | -1,813 -2,027 |
| NET SERVICES | | 137 | 187 486 |
| BALANCE GOODS AND SERVICES | | -1,392 | -1,179 -841 |
| MEDIUM AND LONG-TERM | | | |
| DEBT SERVICE | | -211 | -287 -1,411 |

TOTAL DEFICIT -1,603 -1,466 -2,252

8. COMMENT: DEBT SERVICE FIGURE FOR 1978 REPORT IN PRESS SEEMS EXCESSIVE AND NON-COMPARABLE WITH EARLIER DATA OR IMF/IBRD PROJECTIONS. AS EMB/AID SPECULATES IT INCLUDES ARAB COUNTRY DEPOSITS IN EGYPTIAN BANKING SYSTEM TECHNICALLY DUE FOR REPAYMENT, FIGURE THEREFORE MAY INFLATE ACTUAL DEMAND ON AVAILABLE FOREIGN EXCHANGE RESOURCES AS IT IS UNLIKELY WITHDRAWALS OF THESE DEPOSITS WILL TAKE PLACE. THUS INITIAL VIEW APPEARS MORE STARTLING THAN IT MAY ACTUALLY BE. WE NOTE FURTHER THAT INFLATED FOREIGN EXCHANGE GAP FIGURE MIGHT GIVE GOE MORE LEVERAGE, PARTICULARLY WHEN NEGOTIATING WITH ARAB DONORS, SO WOULD BE IN GOE INTEREST TO PUBLICIZE DEFICIT. SUBTRACTION OF ARAB DEPOSITS IN AMOUNT OF ABOUT \$ ONE
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BILLION WOULD BRING REQUIREMENT FIGURE ROUGHLY INTO LINE WITH 1978 GOE FOREIGN EXCHANGE REQUIREMENT PROJECTION GIVEN CONSULTATIVE GROUP IN MARCH 1977.

9. EMBASSY/AID PLANS TO DISCUSS FOREIGN EXCHANGE BUDGET WITH APPROPRIATE GOE OFFICIALS EARLY NEXT WEEK AND WILL ENDEAVOR CLARIFY MAJOR POINTS, AS WELL AS OBTAIN 1977 FIGURES FOR EVALUATION. NONETHELESS, PRESS ACCOUNT REFLECTS GOE EXPECTATION OF SIZABLE FOREIGN EXCHANGE GAP THAT MUST NECESSARILY BE COVERED THROUGH SOME FORM OF EXTERNAL FINANCIAL ASSISTANCE. FURTHER ANALYSIS TO FOLLOW SEPTTEL AFTER DISCUSSIONS WITH GOE.
MATTHEWS

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Message Attributes

Automatic Decaptioning: X
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Disposition Date: 22 May 2009
Disposition Event:
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Enclosure: n/a
Executive Order: GS
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Original Handling Restrictions: n/a
Original Previous Classification: n/a
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1198153
Secure: OPEN
Status: NATIVE
Subject: FRAMEWORK FOR 1978 FOREIGN EXCHANGE BUDGET PEPAED
TAGS: EFIN, EGEN, EG
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/ec748741-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009